SMC Source Selection Price/Cost Evaluation Process

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Outline

- Introduction
- Source Selection Objective
- Definitions/Cost Factor Criteria
- Organization
- Cost Team Roles and Responsibilities
- Steps in the Source Selection Process
- Summary
- Sample Cost Evaluation Briefing Charts

Source Selection Objective

"The objective of Source Selection is to select the proposal that represents the ***Best Value***"

FAR 15.302

Best Value: "The expected outcome of an acquisition that, in the government's best estimation, provides the greatest overall benefit in response to the requirement."

FAR 2.101

Definitions

Definition

- **PRICE/COST REASONABLENESS - FAR 15.404-1(A)** - FAR does not define Fair and Reasonable but does state that the contracting officer's primary objective in proposal analysis is "…**to ensure that the final agreed-to price is fair and reasonable**."

  –Volume 1 (Price Analysis) of the Contract Pricing Reference Guides - Covers the the term "Fair and Reasonable" in some detail is summarized on the following charts.

Definition

- **What is Fair?** - In the eyes of the "buyer" and the "seller"
  - **To the Buyer -** A price that is in line with (or below) either of the following:
    - The fair market value of the contract deliverable or
    - The total allowable cost of providing the contract deliverable plus a reasonable profit
  - **To the Seller -** A price that is realistic in terms of the seller's ability to satisfy the terms and conditions of the contract.

Definition

What is Reasonable? (FAR 15.404-1(a),(b),&(c)):

A price that a prudent and competent buyer would be willing to pay, given available data on

- Market conditions
- Alternatives for meeting the requirement
- The evaluated price of each alternative
- Technical evaluation factors (in “best value” competitions)

Definition

Adequate Price Competition (APC)

FAR 15.403-1(c)(I) :

- **Can exist under any of the following three (3) situations:**
  - **(1) Two or more responsible offers received,**
  - **(2) One offer received, reasonable expectation that 2 or more offers would be submitted,**

etermines what type of analysis will be perform

  - **based on APC**

Definition

Price Analysis:

- **Simply a comparative process involving the total price**
  - **Always evaluated -- competitive or sole source**

Cost Analysis:

- **An element by element review of proposed costs and profit that make up the total price**
  - **Conducted when cost & pricing data required**

Definition

Cost Realism (FAR 15.404-1(d)):

- **Assessment that proposed price**
  - **Reflects a clear understanding of the requirements**
  - **Appropriately considers scope and degree of effort.**

– **Proposed cost elements**
  - **Are realistic for the work be performed**
  - **Are consistent with the unique methods of performance and materials described in the**

Definition

Probable Cost (FAR 15.404-1(d)(2)(I)) :

- **Represents most likely cost to the Government (includes proposed fee/profit) at contract completion**
- **Shall be used for determining "Best Value", not proposed price**
- **Method used to determine cost realism**

Definition

- **EVALUATION NOTICES (ENS) -** are used to:
  - Ask the contractor questions about a proposal
    - Insufficient information to make a determination
  - Point out a short-coming in the proposal
  - Resolve conflicts between different proposal parts

Source Selection Factors

Mandatory

- **Mission Capability (MC)**

  Programmatic, Performance, and Business Aspects

- **Proposal Risk (PR)**

  Indicator of an Offeror's ability to execute the program within the proposed cost schedule, and performance baselines

- **Past Performance**

  Historical evidence of recent and relevant contract performance

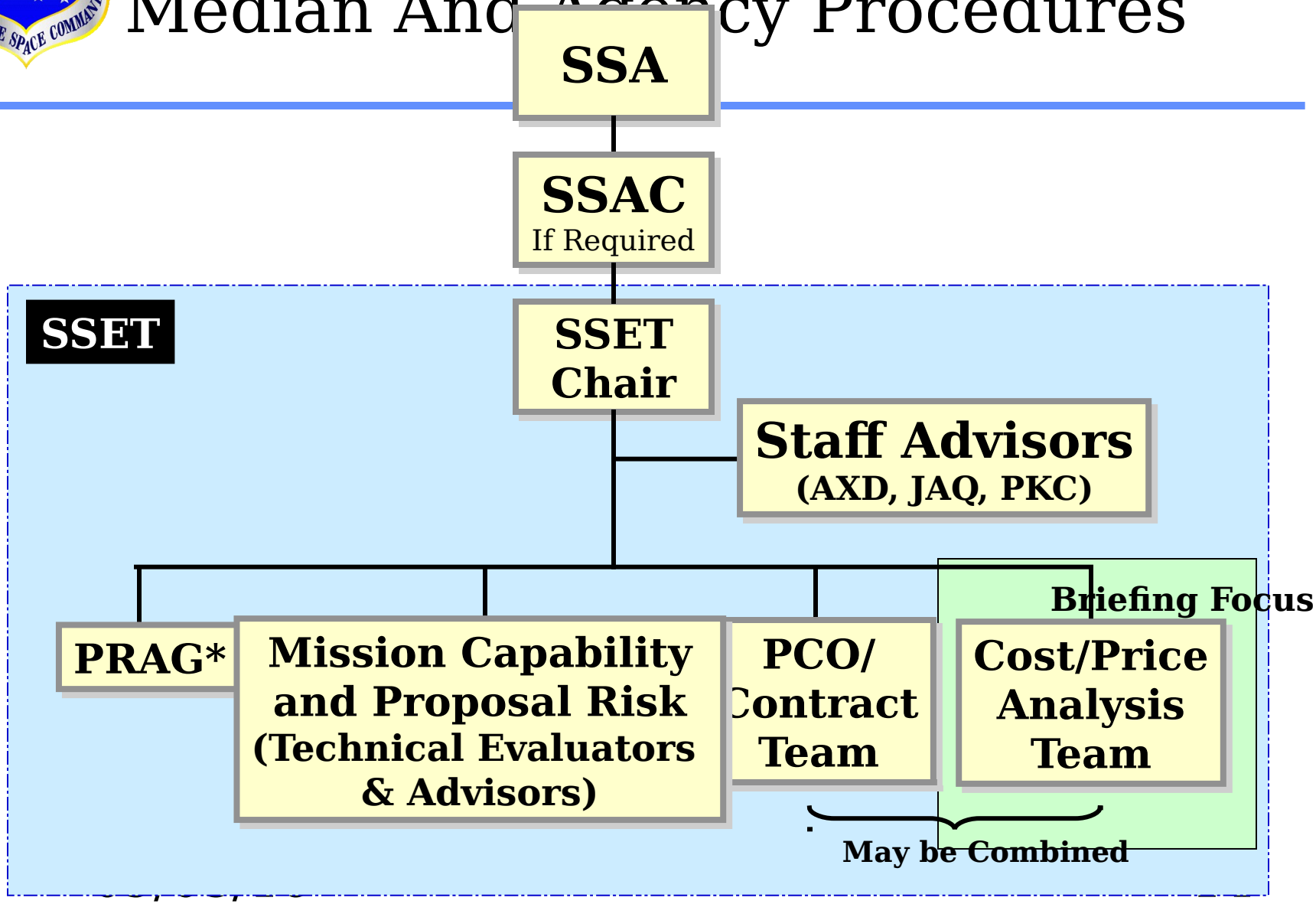
- **Price/Cost** ***Briefing Focus***

  Most likely cost to the Government to perform proposed effort at contract completion

Each Factor uses a different evaluation process and definitions.

Source Selection Organization

Median And Agency Procedures



* Use of PRAG to evaluate Performance Confidence is optional for Median Acquisitions

Cost Factor Team

- **Cost Team Chief:**
  - Usually a price analyst (provided by PKXF)
- **Evaluators and Advisors:**
  - SPO and FM personnel
  - Contractor personnel cannot be evaluators except by approval of the System Program Director (SPD)* (determination and approval not required for FFRDC)
- **Staff Advisors:**
  - SMC (AXD, PKC, PKX, JAQ, FM, DCAA, DCMA) & Aerospace staff personnel that review products and provide advice to source selection teams

**** = SAF/AQX Interim Policy Letter, 19 Jul 96, and Amendment, 26 Aug 96; Subject: Acquiring and Using Advisory & Assistance Services.***

Cost Team Roles and Responsibilities

Cost Team Roles & Responsibilities

- **Prior to RFP Release**:
  - Develop RFP cost instructions
- **Prior to receipt of proposals:**
  - Read the entire RFP
  - Prepare a template for the competitive range briefing cost charts
  - Prepare Proposal Review Checklist
  - Interface with SSET chairperson, PCO, & factor team chiefs
  - Prepare Suggested Format for Technical Review

Cost Team Roles & Responsibilities (Continued)

- **After receipt of proposals:**
  - Review all cost proposals
  - Assist PCO in APC determination
  - Prepare/Review/Approve cost team ENs
  - Prepare/Review/Approve cost charts for competitive range briefing
  - Present cost competitive range briefing charts to SSA if requested by SSET
  - Participate in discussions

Cost Team Roles & Responsibilities (Continued)

- **<u>After receipt of proposals (cont.):</u>**
  - Review EN responses
  - Participate in interim briefings
  - Participate in clearance review
  - Prepare/Review/Approve cost instructions for the Final Proposal Revision (FPR) request letter

Cost Team Roles & Responsibilities (Continued)

- **After Receipt of FPRs:**
  - Review FPR proposals
  - Review & approve cost charts for the decision briefing
  - Present cost decision briefing charts to the SSA if requested by SSET
  - Review & approve cost portion of the Proposal Analysis Report (PAR)

Cost Team Roles & Responsibilities (Continued)

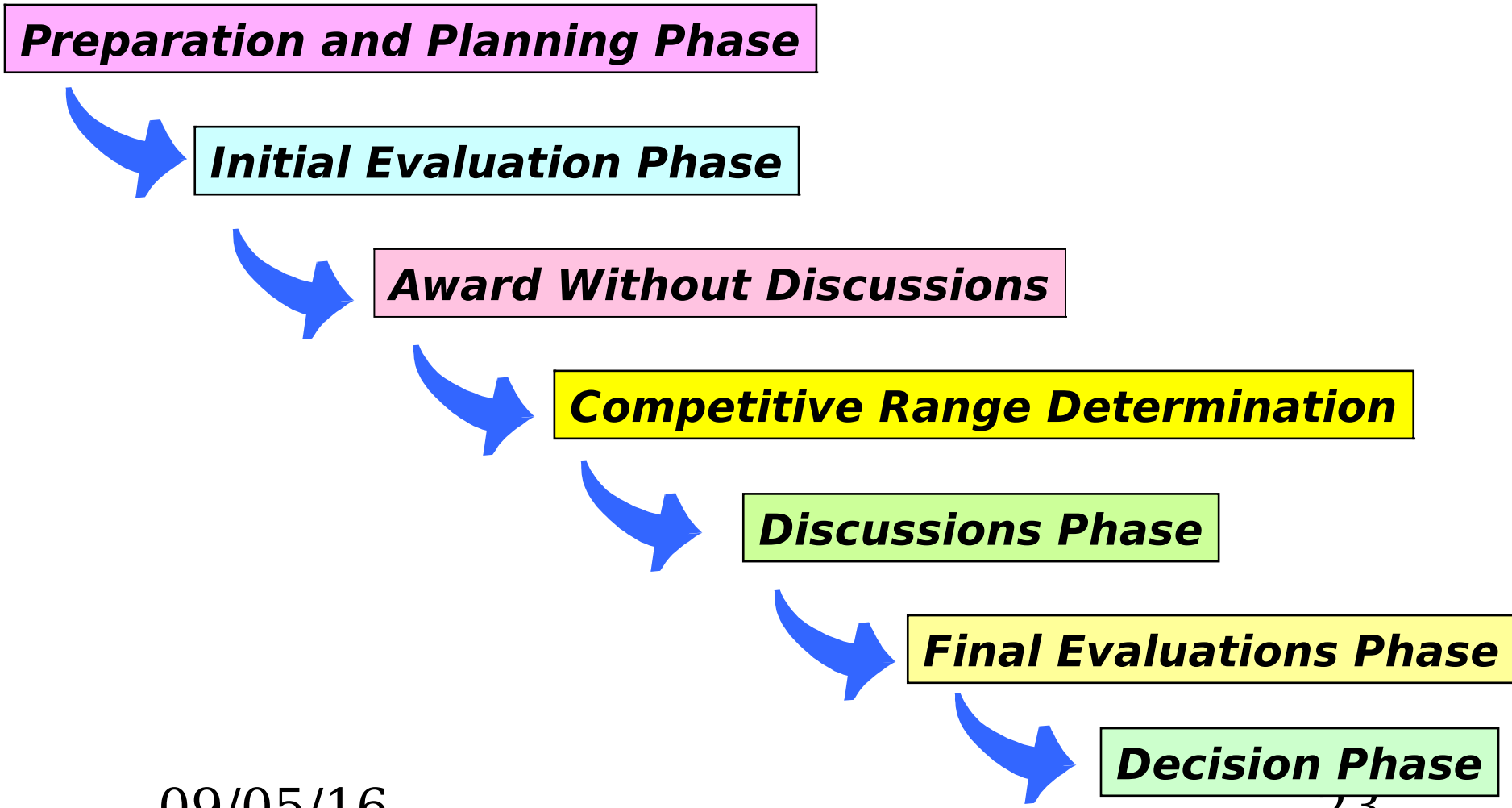
- **After Receipt of FPRs (Continued):**
  - Review/Sign/approve the Price Competition Memorandum (PCM) or the Price Negotiation Memorandum (PNM)

    as applicable
- **After Contract Award:**
  - Participate in debriefing(s)
  - Participate in contract kickoff

Cost/Price Evaluation Process Steps

Source Selection Process

Overview



Cost/Price Evaluation Process

Step 1 - Review Cost/Price Volume and Assist PCO re: APC Determination

Step 2 - Perform Cost/Price Reasonableness Review

Step 3 - Perform Cost Realism Analysis (if applicable)

Step 4 - Prepare Cost Charts for Competitive Range Briefing

Cost/Price Evaluation Process

Step 5 - Perform Cost/Price Reasonableness Review on Final Proposal Revisions

Step 6 - Perform Cost Realism Analysis on Final Proposal Revisions (if applicable)

Step 7 - Prepare Cost Charts for Decision Briefing

Step 8 - Prepare Final Documentation

Step 1 - Review Cost/Price Volume

- **During Step 1 the cost team evaluators**
  - **Read and become familiar with the entire cost volume**
    - **Looking for compliance with the RFP instructions**
    - **Apparent inconsistencies**
    - **Anything unusual or questionable**
  - **Assist the Contracting Officer in determining whether Adequate Price Competition exists**
    - **Required to determine if price analysis or cost analysis will be used to determine reasonableness of the proposed prices**

Step 2 - Perform Cost Reasonableness Review

- **The results of the APC determination establishes the type of reasonableness review that needs to be performed**

  - **If APC is determined to exist, a price analysis is performed**

  - **If APC is not determined to exist, cost and pricing data is requested and a cost analysis is performed**

Step 2 - Perform Cost Reasonableness Review (Continued)

- **If using price analysis**
  - **Compute total proposed price in accordance with Section M of the RFP**
  - **Compare the prices in the Model Contract with the Cost Volume and reconcile any differences**
  - **Perform the price analysis. Most used techniques at SMC are:**
    - **Comparison of proposed prices received**
    - **Comparison with the Government**

Step 2 - Perform Cost Reasonableness Review (Continued)

- If using cost analysis
  - Review and evaluate the separate cost elements and profit

- (Rarely used at SMC on Competitive Acquisitions)

Step 3 - Perform Cost Realism Analysis (if applicable)

- **FAR requires that a Cost Realism Analysis (CRA) always be performed on cost reimbursement type contracts**
  - **May also be performed on fixed-price incentive contracts**
  - **Only performed on firm-fixed-price contracts when**
    - **New requirements may not be fully understood by competing offerors, or**
    - **Where there are quality concerns, or**
    - **Past experience indicates that**

Step 3 - Perform Cost Realism Analysis (Continued)

- **CRA is the process of determining whether the proposed cost elements are:**
  - **Realistic for the work to be performed,**
  - **Reflect a clear understanding of the requirement, and**
  - **Are consistent with the offeror's technical proposal**

- **The vehicle used at SMC to quantify Cost Realism is Probable Cost**
  - **The probable cost is the Government's best estimate of the cost to the Government of any contract that is most likely to result from the offeror's proposal.**
  - **It is offeror specific reflecting the proposed technical approach.**
  - **Profit/fee is not added to estimated overrun costs in computing probable cost**

Step 3 - Perform Cost Realism Analysis (Continued)

- **At SMC the Probable Cost analysis is broken out into two parts**
  - **(1) Analysis of proposed resources**
    - **The technical (Mission Capability) team's support is used to determine whether or not adequate resources (labor hours, skill mix, and material) have been costed.**
      - **Usually evaluated by Work Breakdown Structure (WBS)**

and

  - **(2) Analysis of proposed rates and factors**
    - **The Defense Contract Audit Agency support is used to determine the realism of the proposed rates and factors**

Major Elements In Cost Realism Analysis

- Inputs
  - **Labor Hours**
  - **Material (Type & Quantities)**
  - **Travel (# People,# Trips, Duration)**
  - **ODC (E.G. Computer Time)**
- Rates & Costs
  - **Labor Rates**
  - **Overhead Rates**
  - **Material Costs**
- Profit
- Terms and Conditions
- Incentive Structure
  - Ceiling Price / Share Ratios

RESPONSIBILITY

TECH EVALUATOR

DCAA/DCMA

PCO / BUYER PRICE ANALYST

Step 4 - Prepare Cost Charts for Competitive Range Briefing

- **The following charts are normally prepared by the cost team to support the competitive range briefing to the Source Selection Authority (SSA)**

  - **Background - Such information as type of contract, CLIN structure, Adequate Price Competition, cost data requested, basis of evaluation of price, etc.**

  - **Cost evaluation criteria - Statements of criteria used from Section M of the RFP**

  - **Interdivisional and Subcontracted effort - Used to inform the SSA as to the players and what**

Step 4 - Prepare Cost Charts for Competitive Range Briefing (Continued)

- **Summary of Proposed Prices - Usually broken out by basic effort and options or by WBS. By individual offeror and then comparatively.**

- **Funding Profile - By fiscal year compared to the SPO funding profile**

- **Probable Cost - Explains the adjustments made by the Source Selection Evaluation Team (SSET) in developing probable cost.**
  - **At competitive range a preliminary probable cost may be presented.**
  - **The offerors' are shown this chart during the EN process**

- **Summary Chart - Shows the results of the cost**

COST FACTOR EVALUATION RESULTS

BRIEFER: (Name)

BACKGROUND

- **(Basic, Median, Agency) Procedures Source Selection (Insert Information the SSA Needs to Know Such As)**
  - » **Adequate Price Competition**
  - » **No Certified Cost or Pricing Data**
  - » **Limited Cost Data Requested**
  - » **Ice Performed by (Name of Organization)**
- **Contract (Insert Contract Particulars Such As)**
  - » **Contract Type**
  - » **Unusual Special Contract Clauses**
- **Price (Insert Basis of Review Such As)**
  - » **Basis of Evaluation: Price Analysis or Cost Analysis**

COST EVALUATION CRITERIA

- **Realism (if applicable)**
  - » **Evaluate the Compatibility of Costs With Proposed Technical Effort**
- **Reasonableness**
  - » **Arrived at Through (Insert Cost Analysis or Price Analysis**
- **Compliance with Funding Requirements**
  - » ***(Note: These definitions must agree with what is stated in Section M of the RFP)***

SUMMARY OF PROPOSED PRICES ($M)

ESTIMATE	OFFEROR A	OFFEROR B	GOVT
BASIC EFFORT	$	$	$
OPTION 1	$	$	$
OPTION 2	$	$	$
OPTION 3	$	$	$
TOTAL PRICE	$	$	$

SUMMARY OF PRICES BY MAJOR COST ELEMENT

DESCRIPTION	OFFEROR A	OFFEROR B	OFFEROR
PRIME HOURS			
SUB/IDT HOURS			
TOTAL HOURS			
DIRECT LABOR			
OVERHEAD			
MATERIAL			
SUBCONTRACT			
ODC			
G&A			
ESTIMATED COST			
FCOM			
FIXED FEE			
TOTAL CPFF			

(OPTIONAL CHART)

RATE COMPARISONS
(OPTIONAL CHART)

(LIST All Rates and Put on Same Basis If Possible.)

	(Name)	(Name)
LABOR:		
BID	**$29.97**	**$20.30**
w/o UNCOMP OT	**n/a**	**$20.93**
OVERHEAD	**67.9%**	**51.0%**
G&A:		
VALUE ADDED BASE	**23.9%**	**6.3%**
COST INPUT BASE	**7.4%**	**1.2%**
FCOM	**0.04%**	**Not Bid**
PROFIT	**10.0%**	**9.5%**

(NAME OF OFFEROR)
SUBCONTRACT PARTICIPATION

(ONE CHART FOR EACH OFFEROR)

SUB CONTRACTOR	DESCRIPTION OF EFFORT	AMOUNT	PERCENT OF PRICE
(Name)	Team Member - Entire Effort		$XX.XM
(Name)	Fiber Optic Upgrade		X.X
(Name)	Computers	X.X	X.X
(Name)	Receivers		X.X
(Name)	S/W Development Environment		X.X
(Name)	Radar Tracker		X.X
(Name)	Video Switch		X.X
(Name)	Misc.		X.X
OTHER		X.X	X.X
TOTAL		$ XX.XM	XX.X%

FUNDING PROFILE ($M)
(TYPE OF FUNDS)

FY	(OFFEROR A)	(OFFEROR B)	SPO
04	$ X.XM	$ X.XM	$ X.XM
05			
06			
07			
08			
TOTAL	$XX.X	$XX.X	$XX.X

(NAME OF OFFEROR)
COST ENs

(LIST ALL OR SIGNIFICANT ENs, SEPARATE LIST FOR EACH OFFEROR)

- **Material Cost Discrepancy Between Tables**
- **CLIN XXXX Not Reflected in Detail Cost Schedules**
- **Inconsistency in Statements on Overhead**
- **Equipment Lists Appear to Be Incomplete**
- **Spares Priced Appears to Be in Error**

PRELIMINARY PROBABLE COST (PPC)

	(NAME)	(NAME)
Proposed Cost	**$ XXX.XM**	**$ XXX.**
SSET Adjustments:		
1. Increased Labor Hours:		
+ XXX,XXX	**X.X**	
+ XXX,XXX		**X.X**
2. Software Lines of Code:		
- XXX,XXX	**(X.X)**	
+ XX,XXX		**X.X**
Preliminary Probable Cost	**$ XXX.XM**	**$ XXX**
Profit/Fee	**XX.X**	**XX.X**
GFP Adjustments	**XX.X**	**XX.X**
PPC to Government	**$ XXX.XM**	**$ XXX.XM**

SSET ADJUSTMENTS

(Provide an Explanation for Each Adjustment Reflected on the PPC Chart)

COST EVALUATION SUMMARY

CRITERIA	(OFFEROR A)	(OFFEROR B)
REASONABLE	YES or NO	YES or NO
REALISTIC	YES or NO	YES or NO
FUNDING COMPLIANCE	YES or NO	YES or N

PROPOSED PRICE	$ XXX.XM	$ XXX.XM
PPC	$ XXX.XM	$ XXX.XM

Step 5 - Perform Cost/Price Reasonableness Review on Final Proposal Revision

- **The price analysis or cost analysis is performed again when the offerors' Final Proposal Revision (FPR) is received.**

Step 6 - Perform Cost Realism Analysis on Final Proposal Revisions (if applicable)

- **The cost realism analysis is updated when the offerors' Final Proposal Revision (FPR) is received.**

Usually the adjustments made at competitive range have been resolved during discussions and the final probable cost reflects few if any adjustments by the SSET

Step 7 - Prepare Cost Charts for Decision Briefing

- **Upon receipt of the FPR and after final evaluation, the competitive range charts are updated.**

- **These charts are presented to the SSA at the decision briefing and at the offerors' debriefings.**

Step 8 - Prepare Final Documentation

- **Final documentation consist of:**

  - **The Price Competition Memorandum (PCM) if Adequate Price Competition was achieved**

  - **The Price Negotiation Memorandum (PNM) if Adequate Price Competition was not achieved and cost or pricing data was obtained**

  - **Cost portion of the Proposal Analysis Report (PAR)**

Step 8 - Prepare Final Documentation

- **The PCM or PNM is prepared for the winning offeror only and summarizes the results of the evaluation performed by the cost team**

- **The PAR details the evaluation performed on all individual offerors as well as a comparative analysis**

- **The SSDD provides rational as to how cost/price was considered in the best value decision**

Summary

- Section M is the only evaluation criteria
- Document the price/cost evaluation in the PCM/PNM
  - **Determination of Adequate Price Competition**
  - **Determination of fair and reasonable price**
- Follow the Process!
  - **GAO supports teams that follow their documented process**
  - **So read and understand the SSP & SSEG**

Pricing Staff Contacts

For Source Selection Pricing Assistance please contact:

- **Melinda Richmond/PKXF, Senior Price/Cost Analyst, (310) 363-3064,**
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Elizabeth Chirdon	(310) 363-2689
Melissa Duong	(310) 363-6996
Daniel Flynn	(310) 363-5721
Rosetta Skelton	(310) 363-6301

- **Pricing Website:**
  http://Intranet/smc/pk/html/pkxfwebsite.htm

BACKUPS

BACKUPS

Samples

Price Analysis, Realism/ Probable Cost, Risk Assessment

Price Analysis Sample

- **Price Analysis - FPR Submission 6/15/xx**

	Offeror A		Offeror B
FPR Proposed Price	$308,391,682		$309,146,335
Percent Difference: Per Cost Proposal		0.24%	
Total FPR Price	$308,391,682		$309,146,335
Less CLIN 0002	11,416,822		10,571,767
Less CLIN 0003	1,228,161		573,921
Adjusted Price	$295,746,699		$298,000,647
Government ICE	$302,000,000		$302,000,000
Percent from ICE	2.1%		1.3%

Conclusion: The bottom line total cost difference per the cost proposal is only .24% between t
The adjusted proposed prices are lower than the SPO estimate (Offeror A 2.1%, O
Based on these comparisons, the cost team concluded that the offered prices are

Realism ($M)
Offeror A

	SSET Proposed	Adjustments	Percent	PC	
Realism					
Systems Engineering	$ 65.6	$ (5.5)	8.4%	$ 60.1	YES
Sustainment	$ 79.0	$ 11.4	14.4%	$ 90.4	YES
Total	**$144.6**			**$150.5**	

Assessment - Realism Yes

Realism ($M)
Offeror A SSET Adjustments

Area	Type Change	Description	Adjust.
SYS ENG	Tech Risk	Software Engineering hours deemed equivalent to efforts bid under sustainment. One-half of the hours in WBS 2.5 Software Engineering deemed redundant (59,087 hours reduction)	$ (5.9)
	Rates	G&A and Material Burden increase	$ 0.4
		SYSTEMS ENG SUBTOTAL	**$ (5.5)**
SUSTAINMENT	Tech Risk	Software Reviews Proposed number of reviews considered inadequate (added 15,504 hours) based on engineering judgment	$ 1.3
		Repair of Unserviceables Increased staffing (added 228,608 hours) based on engineering judgment	$ 9.1
		Obsolescence/Vanishing Vendor Increased staffing (added 6,232 hours) based on engineering judgment	$ 0.2
	Rates	G&A and Material Burden increase	$ 0.8
		SUSTAINMENT SUBTOTAL	**$ 11.4**